

Presentation with OMB



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ELECTRONIC CIGARETTES

- In July 2015, two well-known organizations in the vaping industry merged, creating a clear *INDUSTRY LEADER* headquartered in Mooresville, NC.
- We believe we have the *LARGEST RETAIL* platform in the Vaping Industry with over 75 branded stores. Expect 80 locations by year-end and a goal to grow to +1,000 in 3-5 years.
- *ROBUST E-COMMERCE* division with industry leading SEO placement
 - Consumer sites with over 150,000 customer database
 - Two wholesale divisions with reach to over 5,000 accounts.
- Strong pipeline of *PRODUCT INNOVATION* in both branded E-Liquids and Hardware
 - Investing in our liquid production capabilities - recently launched Patriot E-liquids line
 - Recently launched Deviate and Blacksmith MODs made in Mooresville, NC containing US made electronic components.
- Growing sales channel into *C-STORES* and other traditional combustible sales channels



Madvapes by the Numbers

- Over 300 employees (majority based in NC) under its corporate owned infrastructure.
- Approximately 40 of these employees work in our manufacturing and innovation center in Mooresville, NC.
- In addition, our licensees employ approximately 100 full and part-time associates.
- Madvapes currently has enrolled 122 employees (plus families) on its company's health care plan
- Has supported Folds of Honor with more than \$25,000 in the past 5 months.
- Madvapes will pay approximately \$1,000,000 per year in excise tax collected on the sale of e-liquid in North Carolina.
- Corporate owned retail locations will generate approximately \$1,000,000 in sales tax revenue for the state of North Carolina in 2015.
- Supply over 6,000 vape stores in North Carolina and throughout the United States.
- Expanding presence into Europe and are expected e-liquid sales into China

With anticipated growth, Madvapes intends to employ over 5,000 associates within the next 5 years; however, FDA regulations will affect growth.

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Each agency shall base its decisions on the best reasonably obtainable scientific, technical, economic, and other information concerning the need for, and consequences of, the intended regulation. *Executive Order 12866*

FDA Deeming Regulations

- Under the deemng regulations, all new products since February, 2007 would require pre-market approval.
- Current pre-market approval process requires both product studies as well as population studies.
- To this date, the FDA has approved only one application for pre-market approval as is required in the Tobacco Control Act.
- The FDA's pre-market approval process will make innovation difficult, especially considering it is primarily driven by smaller companies.

Vaping is an alternative to traditional tobacco products and should have an alternative set of regulations to tobacco that take into account the lower risk aspects of the product.



Madvapes

- Madvapes believes that the FDA should set appropriate and proportional uniform safety standards for all e-liquids that would protect the public's health while allowing consumers to continue to decrease the consumption of traditional tobacco products.
- Madvapes is a member of AEMSA (American E-liquid Manufacturing Standards Association).
- All e-liquids manufactured by Madvapes undergo testing to meet AEMSA standards in independent labs.
- Madvapes actively participates in the we card program and has a strict age verification process in place for its e-commerce sales channel.
- Madvapes currently has 16,750 SKUs. Each of which would require pre-market approval under the proposed deemng regulations. A significant number of products would be removed from the market that are currently enjoyed by users that have helped them reduce or stop tobacco consumption.

The proposed deemng regulations might actually hurt public health if products are taken off the market due to regulatory costs or new products do not come to market.

Consequences of FDA Deeming Regulations

- The approximately 2,000,000 people who are currently using vapor products would either:
 - Turn to smoking combustible cigarettes,
 - Purchase products from unscrupulous dealers with no regard to testing or safety,
 - Not receive new products that might stop them from returning to smoking.
- Current smokers will no longer have an effective alternative to combustible cigarettes.
- New products that have the potential to provide a more safe and effective alternative will likely not go to market.
- Many, if not all, of the more than 10,000 vape stores will be forced to close, displacing thousands of employees.



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MADVAPES E-CIGARETTE USAGE SURVEY

- 9,182 survey takers responded with answers based on their experience with electronic cigarettes.
- The survey was conducted over a four week timeframe with responses collected from customers at corporate brick-and-mortar stores, Facebook, Instagram and through affiliate websites.
- The survey results show that consumers demand a variety of e-liquid flavors and constant technological advancement.
- The increase in manufacturing costs for the few companies capable of meeting the stringent requirements will result in a decrease in variety and delayed product development. The majority of manufacturers will be unable to meet the demands of the pre-market approval process which will result in the removal of nearly a decade of vapor products from the market.

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The Majority of Vapers are Former Smokers

92.7% of the survey respondents report that they had used traditional tobacco products prior to using electronic cigarettes and nearly 78% reported more than 5 years of traditional tobacco use.

Answer Choices	Responses
Less than 1 year	3.32%
1-5 years	18.74%
6-10 years	17.90%
11-15 years	14.71%
16-20 years	13.24%
21-25 years	9.16%
25-30 years	8.96%
More than 30 years	13.96%
Total	8,110

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Electronic Cigarettes are an Effective Alternative

- 86% of the survey respondents no longer use traditional tobacco products and 13% have reduced their use of traditional tobacco products.
- Electronic cigarettes are highly effective due to the variety of e-liquid flavors offered and the constant innovation in technology.



Yes, I no
longer use...



Yes, I have
reduced my u...

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

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Dual Use is Limited and Most Consumers Quickly Change



- Nearly 90% of the respondents who have stopped using traditional tobacco products did so within 3 months.
- 68% of those individuals stopped traditional tobacco use within 1 month.



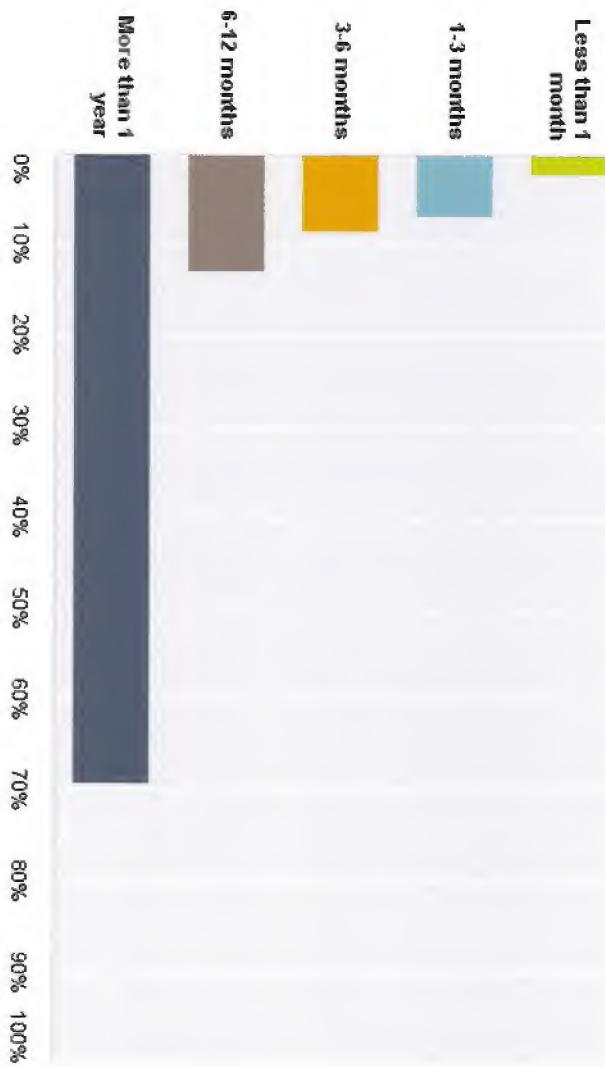
Electronic Cigarettes are a Sustainable Alternative

- 69% of respondents

were able to stop the use
of traditional tobacco

products and maintain
for more than 1 year.

- 84% of all respondents
who stopped traditional
tobacco use never
relapsed.



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Vapor Products are for Adults Only

Vapor products are intended only for adult smokers and adult vapers. The Madvapes E-Cigarette Usage Survey reveals that 63% of the respondents were at least 30 years old and 26% are between the ages of 21 and 29.

Answer Choices	Responses
18-20	10.74%
21-29	26.21%
30-39	24.95%
40-49	17.29%
50-59	13.20%
60 or older	7.62%
Total	9,162



Flavors Appeal to Adult Smokers and Vapers

- Of the Madvapes E-Cigarette Usage Survey respondents who had stopped their consumption of traditional tobacco products, 73.35% stated that flavors other than tobacco/menthol were “very” or “extremely” important in helping to stop their consumption of traditional tobacco products.
- In responding to a question about the survey takers favorite types of e-liquids, tobacco and menthol ranked the lowest in flavor preference.
- Restrictions on non-tobacco flavors could cause individuals who have stopped using traditional tobacco to relapse and would make it more difficult for current smokers to stop the use of traditional tobacco products.

	Not important at all	Slightly important	Moderately important	Very important	Extremely important	Total	Weighted Average
(no label)	7.59% 527	5.69% 395	13.36% 927	31.83% 2,219	41.52% 2,881	6,939	3.94



Consumers Want Product Variety and Constant Innovation

When asked how frequently the survey takers changed e-liquid flavors, 32% responded with at least once a day and another 30% change flavors at least once a week.

Consumers demand a variety of flavors. Madvapes introduces a new brand of e-liquid once a month and manufactures new flavors for product lines once every 2-3 months.

Answer Choices	Responses
Frequently (at least once a day)	32.20% 2,785
Somewhat frequently (at least once a week)	29.93% 2,588
Occasionally (once every few weeks)	20.06% 1,735
Rarely (once every few months or longer)	13.02% 1,126
Never	4.79% 414
Total	8,648

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When an agency determines that a regulation is the best available method of achieving the regulatory objective, it shall design its regulations in the most cost-effective manner to achieve the regulatory objective. In doing so, each agency shall consider incentives for innovation, consistency, predictability, the costs of enforcement and compliance (to the government, regulated entities, and the public), flexibility, distributive impacts, and equity. *Executive Order 12866*



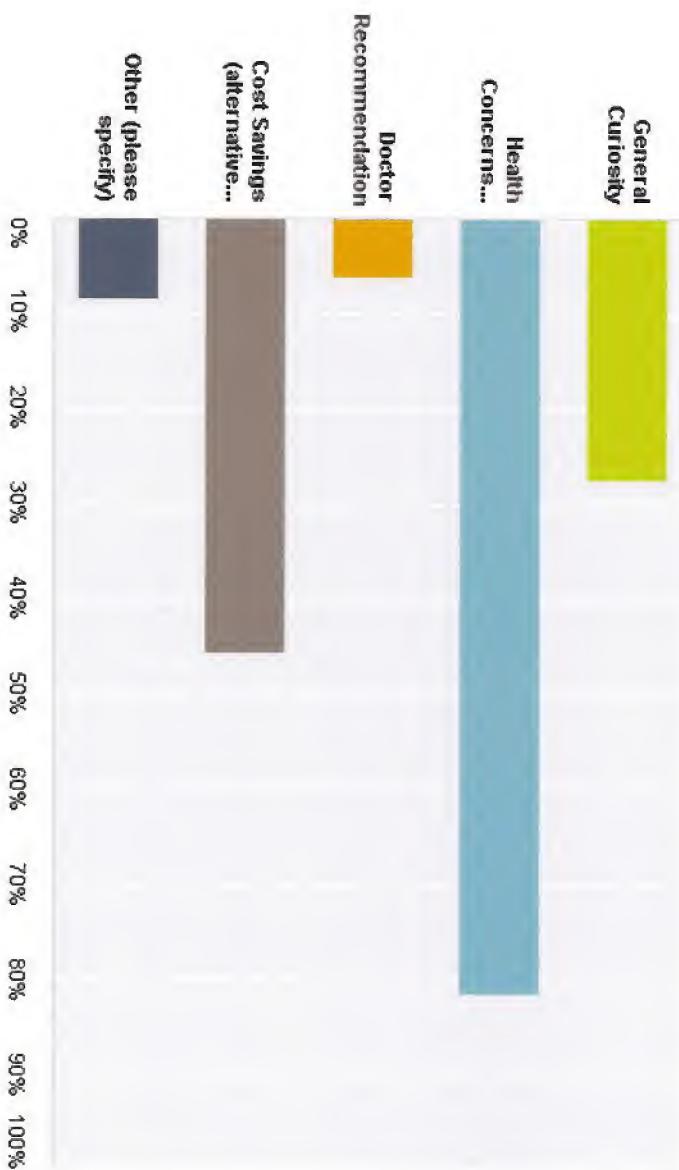
MODIFIED RISK TOBACCO PRODUCTS

- The FDA deeming regulations would prevent vapor products from being marketed as a less harmful alternative without approval as a modified risk tobacco product.
- To this date, the FDA has never approved a tobacco product as a modified risk tobacco product.
- Swedish Match's Snus application for modified harm encompassed 132,000 pages and still has not been approved even though it was submitted more than 12 months ago.
- The modified risk tobacco products approval process will result in the restriction of truthful information to consumers.

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Electronic Cigarettes are a Tobacco Harm Reduction Product



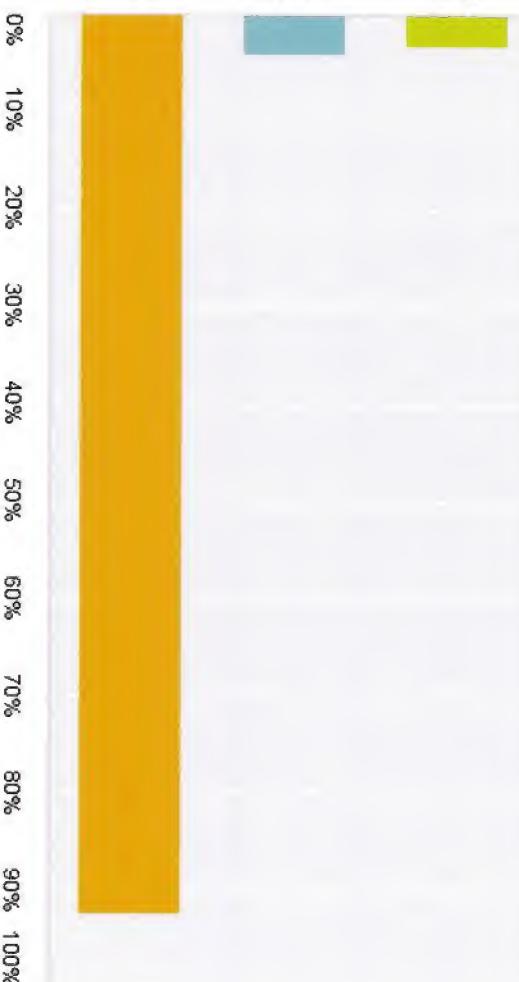
The Madvapes E-Cig Usage survey reveals that over 81% of smokers chose vapor products as an alternative to tobacco products because of health concerns. If we limit the ability to market vapor products as a less harmful alternative, smokers will be less inclined to make the switch.

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FDA Regulation will Stifle Necessary Innovation

- Continued innovation is key to providing safe and effective alternatives to traditional tobacco products.
- 50% of the survey respondents purchased a disposable or cig-a-like product when they first tried electronic cigarettes. Of those respondents, less than 8% continue to use those products. The remaining 92% upgraded to a more advanced device.





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FDA Regulation Should Not Extend to Zero Nicotine Products

- Vapor products are available in a variety of nicotine levels and in many cases contain no nicotine.
- 75% of the survey respondents who currently use zero nicotine e-liquid, do not add nicotine to the e-liquid. Zero nicotine e-liquid is not made or derived from tobacco; therefore, it should not be regulated by the FDA.

Yes

No

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

The Black Market for Vapor Products

- The proposed FDA regulations will lead many electronic cigarette users to turn to the black market when products they currently use are removed from the market.
- The E-Cigarette Forum administered a 75-question online poll to 10,000 members in 2014.
 - Approximately 79% of respondents said they would “look to the black market” if products they use “were banned tomorrow,” while 14% said they would return to smoking combustible cigarettes.
- Do it yourself and recipe websites are widely available to consumers.
- 25% of the Madvapes E-Cigarette Survey respondents stated that they currently add nicotine to zero nicotine flavors.
- This is despite the fact that e-liquid is readily available for purchase.

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A Final Thought..

- 500,000 people die prematurely from tobacco related diseases
- Karl Phillips estimates that so far the vaping/e cig industry has reduced this number by 13,000-16,000
- Will these regulations actually help to prevent any of the 500,000 premature tobacco related deaths?

